Harvest One Cannabis Inc.

Condensed Consolidated Interim Financial Statements
(Unaudited)

For the three months ended September 30, 2019 and 2018
(in Canadian dollars)

Harvest One Cannabis Inc.

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Harvest One Cannabis Inc.

Condensed consolidated interim statements of financial position
As at September 30, 2019 and June 30, 2019
(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

	Note	**September 30 2019**	June 30 2019
		$	$
Assets			
Current assets			
Cash and cash equivalents		**7,272**	20,301
Accounts receivable	4	**4,849**	3,308
Inventories	5	**14,915**	9,083
Biological assets	6	**801**	857
Prepaid expenses and deposits		**1,991**	1,612
Promissory note		—	255
		29,828	35,416
Property, plant and equipment	7	**39,678**	31,125
Investment in and loan to associate	8	**1,965**	1,865
Intangible assets	9	**25,600**	10,334
Goodwill	12	**32,028**	23,583
Total assets		**129,099**	102,323
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	13	**15,022**	8,301
Loans and lease liabilities	14	**419**	101
		15,441	8,402
Loans and lease liabilities	14	**2,510**	139
Deferred tax liability		**647**	647
Total liabilities		**18,598**	9,188
Equity			
Share capital	16	**146,128**	125,093
Other reserves	17	**19,994**	18,042
Accumulated other comprehensive loss		**(330)**	(139)
Accumulated deficit		**(59,711)**	(54,450)
Equity attributable to Harvest One shareholders		**106,081**	88,546
Non-controlling interest	11	**4,420**	4,589
Total equity		**110,501**	93,135
Total liabilities and equity		**129,099**	102,323

Commitments (note 19)

"Frank Holler"
Frank Holler, Director

"Grant Froese"
Grant Froese, Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Harvest One Cannabis Inc.

Condensed consolidated interim statements of loss and comprehensive loss
For the three months ended September 30, 2019 and 2018
(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

		For the three months ended September 30	
	Note	**2019**	2018
		$	$
Revenue		**4,201**	1,679
Excise taxes		**137**	—
Net revenue	20	**4,064**	1,679
Cost of sales			
Production costs		**622**	648
Inventory expensed to cost of sales		**2,620**	1,159
Gross profit (loss) before fair value adjustments		**822**	(128)
Realized fair value amounts included in inventory sold	5	**705**	504
Unrealized change in fair value of biological assets	6	**(1,148)**	(1,210)
Gross profit		**1,265**	578
Expenses			
General and administration	15	**4,145**	2,671
Sales and marketing		**827**	594
Acquisition costs		**—**	30
Research and development		**112**	—
Depreciation and amortization		**675**	78
Share-based compensation	17(a)	**697**	1,575
Asset impairment and write-downs		**—**	332
Severance and reorganization costs	18	**—**	1,115
		6,456	6,395
Loss from operations		**(5,191)**	(5,817)
Other income (expense)			
Interest and other income		**47**	—
Finance costs		**(135)**	(7)
Share of loss from investment in associate	8(a)	**(151)**	—
Foreign exchange gain (loss)		**—**	29
		(239)	22
Net loss		**(5,430)**	(5,795)
Other comprehensive (loss) income			
Foreign currency translation		**(191)**	(28)
Comprehensive loss		**(5,621)**	(5,823)
Net loss attributable to:			
Harvest One Cannabis Inc.		**(5,261)**	(5,795)
Non-controlling interests	11	**(169)**	—
Comprehensive loss attributable to:			
Harvest One Cannabis Inc.		**(5,452)**	(5,823)
Non-controlling interests	11	**(169)**	—
Net loss per share – basic and diluted		**(0.02)**	(0.03)
Weighted average number of outstanding common shares		**213,666,344**	173,621,452

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Harvest One Cannabis Inc.

Condensed consolidated interim statements of changes in equity

For the three months ended September 30, 2019 and 2018

(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

	Note	Number of shares	Share capital	Other reserves	Accumulated other comprehensive loss	Accumulated deficit	Non-controlling interest	Total
		#	$	$	$	$	$	$
Balance, July 1, 2018		173,621,452	117,736	13,856	(83)	(26,598)	—	104,911
Share-based compensation	17(a)	—	—	1,575	—	—	—	1,575
Foreign currency translation		—	—	—	(28)	—	—	(28)
Net loss		—	—	—	—	(5,795)		(5,795)
Balance, September 30, 2018		173,621,452	117,736	15,431	(111)	(32,393)	—	100,663
Balance, July 1, 2019		185,819,851	125,093	18,042	(139)	(54,450)	4,589	93,135
Common shares issued for services		581,202	396	—	—	—	—	396
Common shares issued for acquisition	10	28,272,622	20,639	—	—	—	—	20,639
Options and warrants issued for acquisition	10, 17	—	—	1,255	—	—	—	1,255
Share-based compensation	17(a)	—	—	697	—	—	—	697
Foreign currency translation		—	—	—	(191)	—	—	(191)
Net loss		—	—	—	—	(5,261)	(169)	(5,430)
Balance, September 30, 2019		**214,673,675**	**146,128**	**19,994**	**(330)**	**(59,711)**	**4,420**	**110,501**

Harvest One Cannabis Inc.

Condensed consolidated interim statements of cash flows
For the three months ended September 30, 2019 and 2018
(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

		For the three months ended September 30	
	Note	**2019**	2018
		$	$
Operating activities			
Net loss		**(5,430)**	(5,795)
Adjustments to reconcile non-cash items			
Depreciation and amortization	7, 9	**764**	160
Asset impairment and write-downs	7(b)	**—**	332
Loss on disposal of property, plant and equipment		**10**	4
Share-based compensation	17(a)	**697**	1,575
Issuance of common shares for services		**396**	
Accretion on loans and borrowings	14(a)	**73**	—
Share of net loss from investment in associate	8(a)	**151**	—
Unrealized change in fair value of biological assets	6	**(1,148)**	(1,209)
Realized fair value amounts included in inventory sold	5	**705**	503
Fair value adjustment in inventory expensed to cost of sales		**357**	451
Changes in non-cash working capital			
Accounts receivable		**(1,194)**	(398)
Inventories		**(3,072)**	(588)
Prepaid expenses and deposits		**(344)**	(541)
Accounts payable and accrued liabilities		**(2,170)**	(571)
Net cash used in operating activities		**(10,205)**	(6,077)
Investing activities			
Purchase of property, plant and equipment	7	**(2,419)**	(655)
Proceeds from sale of property, plant and equipment		**27**	—
Purchase of intangible assets	9	**(22)**	(2)
Investment in and loan to associate	8	**(250)**	(1,765)
Acquisition of Delivra, net of cash acquired	10	**86**	—
Net cash used in investing activities		**(2,578)**	(2,422)
Financing activities			
Payment of loans and borrowings		**(95)**	—
Repayment to related party		**—**	(6)
Net cash used in financing activities		**(95)**	(6)
Effect of foreign exchange on cash		**(151)**	(25)
Decrease in cash during the period		**(13,029)**	(8,530)
Cash, beginning of the period		**20,301**	56,846
Cash, end of the period		**7,272**	48,316

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

1. Nature of operations

Harvest One Cannabis Inc. ("Harvest One") is a publicly traded corporation, incorporated in Canada, with its head office located at 504 – 999 Canada Place, Vancouver, BC, V6C 3E1. Harvest One's common shares are listed on the TSX Venture Exchange under the symbol "HVT" and on the OTCQX® Best Market operated by OTC Market Group ("OTCQX") under the symbol "HRVOF".

These consolidated financial statements as at and for the three months ended September 30, 2019 and 2018 include Harvest One and its subsidiaries (together referred to as "the Company") and the Company's interest in an affiliated company.

The principal activities of the Company are to provide innovative lifestyle and wellness products to consumers and patients in regulated markets around the world through its subsidiaries: United Greeneries Ltd. ("United Greeneries"), a Licensed Producer of cannabis pursuant to the *Cannabis Act*, and Greenbelt Greenhouse Ltd. ("Greenbelt") under the cultivation segment; Satipharm Limited ("Satipharm") and PhytoTech Therapeutics Ltd. ("PhytoTech"), both under the Company's medical and nutraceutical segment; and Dream Water Global ("Dream Water"), the Company's consumer segment, which was enhanced with the recent acquisition of Delivra Corp. ("Delivra"). The Company also has exposure to the retail vertical through its investment in Burb Cannabis Corp. ("Burb").

2. Significant accounting policies

a) *Basis of presentation*

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34 - Interim Financial Reporting, following the same accounting policies and methods of application as those disclosed in the annual audited consolidated financial statements for the year ended June 30, 2019 other than those disclosed in note 3. These condensed consolidated interim financial statements should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended June 30, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These condensed consolidated interim financial statements were approved and authorized for issue by the Board of Directors of the Company on November 26, 2019.

b) *Basis of accounting – going concern*

These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company's ability to continue in the normal course of operations is dependent on its ability to achieve profitable operation or raise additional capital through debt or equity financings. While the Company has been successful in raising capital in the past, there is no assurance it will be successful in closing further financing transactions in the future.

The Company had a consolidated net loss of $5,430 and negative operating cash flows of $10,205 for the three months ended September 30, 2019 and an accumulated deficit of $59,711 as at September 30, 2019. These conditions indicate the existence of material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. If for any reason the Company is unable to continue as a going concern, then this could have an impact on the Company's ability to realize assets at their recognized values, in particular goodwill and other intangible assets, and to extinguish liabilities in the normal course of business at the amounts stated in the consolidated financial statements. Management acknowledges that in the absence of securing additional capital there is uncertainty over the Company's ability to meet its funding requirements as they fall due.

c) *Basis of measurement*

These condensed consolidated interim financial statements are presented in Canadian dollars and are prepared on a historical cost basis, except for certain financial instruments and biological assets which are measured at fair value.

(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

2. Significant accounting policies (continued)

d) *Basis of consolidation*

These consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The accounts of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Intercompany transactions, balances and unrealized gains or losses on transactions are eliminated. The table below lists the Company's subsidiaries, investment in associate and the ownership interests in each:

Subsidiary	Jurisdiction	% ownership	Accounting method
United Greeneries Holdings Ltd.	Canada	100%	Consolidation
United Greeneries Ltd.	Canada	100%	Consolidation
United Greeneries Operations Ltd.	Canada	100%	Consolidation
United Greeneries Saskatchewan Ltd.	Canada	100%	Consolidation
Satipharm Limited	Ireland	100%	Consolidation
Satipharm Europe Ltd.	UK	100%	Consolidation
Satipharm AG	Switzerland	100%	Consolidation
Satipharm Canada Limited	Canada	100%	Consolidation
Satipharm Australia Pty Ltd.	Australia	100%	Consolidation
Dream Products Inc.	Canada	100%	Consolidation
Dream Products USA Inc.	USA	100%	Consolidation
Sarpes Beverages, LLC	USA	100%	Consolidation
PhytoTech Therapeutics Ltd.	Israel	100%	Consolidation
Greenbelt Greenhouse Ltd.	Canada	50.1%	Consolidation
Delivra Corp.	Canada	100%	Consolidation
Delivra Inc.	Canada	100%	Consolidation
Delivra Pharmaceuticals Inc.	Canada	100%	Consolidation
LivCorp Inc.	Canada	100%	Consolidation
LivCorp International Inc.	Canada	100%	Consolidation
LivVet Inc.	Canada	100%	Consolidation
PortaPack Ltd.	Canada	100%	Consolidation
Burb Cannabis Corp.	Canada	19.99%	Equity

e) *Significant accounting policies*

As a result of the acquisition of Delivra as described in note 10, the Company has amended the following significant accounting policy from that disclosed in the annual audited consolidated financial statements for the year ended June 30, 2019:

Finite-life and indefinite-list intangible assets

Intangible assets with a finite life are recorded at cost less accumulated amortization. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Amortization is provided on a straight-line basis over their estimated useful lives:

Website	5 years
Customer relationships	7 years
Technology and formulations	8 years

The estimated useful life and amortization method are reviewed during each financial year and adjusted if appropriate, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets with indefinite useful lives are comprised of acquired brand names and in-process R&D which are carried at cost. Brand names are estimated to have an indefinite life because they are expected to generate cash flows indefinitely. In-process R&D is not yet available for use and is not subject to amortization. Indefinite life intangible assets are not amortized but are tested for impairment annually and when there is an indication of impairment.

3. New accounting standards and interpretations

The Company has adopted the following new or amended IFRS standards for the period beginning July 1, 2019.

IFRS 16 – Leases ("IFRS 16")

IFRS 16 was issued by the International Accounting Standards Board ("IASB") replacing IAS 17 – Leases ("IAS 17") and related interpretations and is effective for annual periods beginning on or after January 1, 2019. IFRS 16 eliminates the current operating/finance lease dual accounting model for lessees and replaces it with a single, on-balance sheet accounting model, similar to the previous finance lease accounting.

The Company has updated its accounting policy for leasing to reflect the adoption of IFRS 16 as detailed below.

Definition of a lease

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

Accounting as a lessee

For contracts that contain a lease, the Company recognises a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is assessed for impairment losses, should a trigger be identified and adjusted for impairment if required.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate. Lease payments included in the measurement of the lease liability is comprised of fixed lease payments and lease payments in an option renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the Company changes its assessment of whether it will exercise an extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

The Company presents right-of-use assets in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

3. New accounting standards and interpretations (continued)

Short-term leases and lease of low-value assets

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line or other systemic basis over the lease term.

Critical accounting estimates and judgments

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The assessment is reviewed upon a trigger by a significant event or a significant change in circumstances.

Certain leases contain non-lease components, excluded from the right-of-use asset and lease liability, related to operating charges. Judgment is applied in determination of the stand-alone price of the lease and non-lease components.

Transition to IFRS 16

The Company adopted IFRS 16 using the modified retrospective method which does not require restatement of comparative periods. Therefore, the comparative information has not been restated and continues to be reported under IAS 17.

The Company used the following additional practical expedients:

- applied a single discount rate to a portfolio of leases with similar characteristics;
- applied the exemption not to recognize right-of-use assets and lease liabilities for short-term leases with terms less than 12 months and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line or other systemic basis over the lease term;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term of the contract contains options to extend or terminate the lease.

The Company elected to measure the right-of-use assets at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. On transition to IFRS 16, the Company recognized $856 of right-of-use assets, net of accrued lease payments of $26, and $882 of lease liabilities. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at July 1, 2019. The weighted-average rate applied is 14.5%.

Operating lease commitments at June 30, 2019	1,759
Discounted using the incremental borrowing rate at July 1, 2019	14.5%
Finance lease liabilities recognized as at June 30, 2019	**1,282**
Recognition exception for leases of low-value assets	(89)
Scope changes due to IFRS 16	(311)
Lease liabilities at July 1, 2019	**882**

For leases that were classified as finance leases under IAS 17, the carrying amounts of the right-of-use asset and the lease liability at July 1, 2019, are determined as the carrying amounts of the lease asset and lease liability under IAS 17 immediately before that date.

4. Accounts receivable

The summary of the Company's accounts receivable is as follows:

	September 30 2019	June 30 2019
	$	$
Trade receivables	**3,703**	2,577
Taxes recoverable from governments	**1,146**	731
	4,849	3,308

At the reporting date, the Company assessed the collectability of the balance and concluded that none of the receivables were uncollectible.

(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

5. Inventories

The summary of the Company's inventories is as follows:

	September 30 2019	June 30 2019
	$	$
Harvested cannabis		
Work-in-process	**6,333**	3,974
Finished goods	**1,377**	1,328
	7,710	5,302
CBD capsules		
Raw materials	**1,327**	1,399
Finished goods	**674**	748
	2,001	2,147
Liquid sleep shots and sleep powder packets		
Raw materials	**22**	650
Finished goods	**1,738**	652
	1,760	1,302
Pain relief creams		
Raw materials	**917**	—
Finished goods	**1,476**	—
	2,393	—
Packaging and supplies	**1,051**	332
	14,915	9,083

a) *Harvested cannabis*

During the three months ended September 30, 2019, cost of sales on cannabis inventory sold was $1,687 (three months ended September 30, 2018 - $537), of which $1,475 (2018 - $503) related to realized fair value changes and $212 (2018 - $33) related to costs incurred to sell harvested cannabis inventory.

(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

6. Biological assets

The continuity of biological assets at September 30, 2019 and June 30, 2019, which consists of seeds and cannabis plants, is as follows:

	September 30 2019	June 30 2019
	$	$
Balance, beginning of year	**857**	904
Unrealized change in fair value of biological assets	**1,148**	3,992
Transferred to inventory upon harvest	**(1,204)**	(4,039)
Balance, end of year	**801**	857

As at September 30, 2019, included in the carrying amount of biological assets was $773 in cannabis plants and $28 in seeds (June 30, 2018 – $821 in cannabis plants and $36 in seeds).

Biological assets are valued in accordance with IAS 41 – *Agriculture* and are presented at their fair value less costs to sell up to the point of harvest. The fair value measurements for biological assets have been categorized as Level 3 of the fair value hierarchy based on the inputs to the valuation technique used, as there is currently no actively traded commodity market for plants. The fair value was determined using a valuation model to estimate the expected harvest yield per plant applied to the estimated fair value less costs to sell per gram. The significant assumptions applied in determining the fair value of biological assets are as follows:

a) wastage of plants based on their various stages;
b) expected yield by strain of plant of approximately 23 grams per plant based on an average of historical growing results (June 30, 2019 – approximately 21 grams per plant);
c) percentage of costs incurred to date compared to the estimated total costs to be incurred (“stage of plant growth”);
d) percentage of costs incurred for each stage of plant growth;
e) average selling price of $8.70 per gram; and
f) average selling costs of $2.70 per gram.

The selling price used in the valuation of biological assets is based on the average selling price of cannabis products for the recreational market and can vary based on different strains being grown. Expected yields for the cannabis plant is also subject to a variety of factors, such as strains being grown, length of growing cycle, and space allocated for growing. Selling costs include packaging, labelling, shipping, and other costs incurred to sell cannabis products for the recreational market.

The Company periodically assesses the significant assumptions applied in determining the fair value of biological assets based on historical information obtained as well as planned production schedules. When there is a material change in any of the significant assumptions, the fair value of biological assets is adjusted.

During the three months ended September 30, 2019, the Company determined that the fair value less costs to sell was $6.00 per gram (three months ended September 30, 2018 - $6.45 per gram).

These estimates are subject to volatility and a number of uncontrollable factors which could significantly affect the fair value of biological assets in future periods. A 10% increase or decrease in the fair value less costs to sell or in the expected yield would result in an increase or decrease of approximately $99 in biological assets at September 30, 2019 (June 30, 2019 – $104).

On average, the growth cycle is 13 weeks and for in-process biological assets, the fair value at point of harvest is adjusted based on the stage of plant growth. As at September 30, 2019, on average, the biological assets were 62% complete as to the next expected harvest date (June 30, 2019 – 65%).

(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

7. Property, plant and equipment

The summary of the Company's property, plant and equipment is as follows:

	Plant and equipment	Office equipment	Building and leasehold improvements	Land	Construction in progress	Right-of-use assets	Total
	$	$	$	$	$	$	$
Cost							
July 1, 2018	2,575	386	5,257	1,395	1,809	—	11,422
Additions	143	132	19	—	12,252	—	12,546
Additions from Greenbelt acquisition	2,742	17	6,604	461	—	—	9,824
Transfers	388	—	—	—	(388)	—	—
Disposals and write-downs	(1,278)	—	—	—	(327)	—	(1,605)
June 30, 2019	4,570	535	11,880	1,856	13,346	—	32,187
Accumulated depreciation							
July 1, 2018	628	98	156	—	—	—	882
Depreciation	334	113	200	—	—	—	647
Disposals and write-downs	(467)	—	—	—	—	—	(467)
June 30, 2019	495	211	356	—	—	—	1,062
Net book value							
June 30, 2019	4,075	324	11,524	1,856	13,346	—	31,125
Cost							
July 1, 2019	4,570	535	11,880	1,856	13,346	—	32,187
Additions	584	30	—	—	6,905	928	8,447
Additions from Delivra acquisition (note 10)	481	—	—	—	—	—	481
Disposals and write-downs	(100)	(32)	(48)	—	—	—	(180)
September 30, 2019	5,535	533	11,832	1,856	20,251	928	40,935
Accumulated depreciation							
July 1, 2019	495	211	356	—	—	—	1,062
Depreciation	138	34	110	—	—	56	338
Disposals and write-downs	(100)	(32)	(11)	—	—	—	(143)
September 30, 2019	533	213	455	—	—	56	1,257
Net book value							
September 30, 2019	**5,002**	**320**	**11,377**	**1,856**	**20,251**	**872**	**39,678**

a) *Construction in progress*

Additions to construction in progress during the three months ended September 30, 2019 mainly relate to: (1) the construction of a 68,000 square foot indoor flowering facility at the Lucky Lake property in Saskatchewan; and (2) the modular expansion on the land adjacent to the Duncan facility. The amounts capitalized to construction in progress related to these projects will be transferred to other classes of property, plant and equipment upon completion and will be depreciated over their respective useful lives once available for use.

b) *Asset impairment and write-downs*

During the three months ended September 30, 2018, approximately $185 in costs related to a facility which the Company decided not to proceed with were written-off. These costs consisted of amounts capitalized in construction in progress and prepaid expenses and deposits.

c) *Right-of-use assets*

The Company adopted IFRS 16 – Leases effective July 1, 2019 (note 3). Additions during the three months ended September 30, 2019 includes $882 lease liabilities on transition to IFRS 16 and $46 of additions for office leases.

(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

8. Investment in associate

The summary of the Company's investment in associate is as follows:

	Notes	**September 30 2019**	June 30 2019
		$	$
Investment in associate	(a)	**951**	1,102
Warrants in associate		**763**	763
Loan to associate	(b)	**251**	—
		1,965	1,865

a) *Investment in associate*

The following table summarizes the carrying amount of the Company's interest in Burb:

Company's share (%)		19.99%
Balance, June 30, 2018	$	—
Additions		1,319
Share of loss for the year ended June 30, 2019		(217)
Balance, June 30, 2019		1,102
Share of loss for the period ended September 30, 2019		(151)
Balance, September 30, 2019		**951**

b) *Loan to associate*

In connection with the investment in Burb on September 28, 2018, the Company agreed to loan Burb $250 following Burb's receipt of a retail cannabis licence. On September 18, 2019, Burb received its first retail cannabis licence and therefore the Company advanced Burb a $250 loan bearing interest at 6% per annum and having a term of 2.5 years. The balance at September 30, 2019 includes $1 of accrued interest.

(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

9. Intangible assets

The summary of the Company's intangible assets is as follows:

	Brand names	Technology and formulations	In-process R&D	Customer relationships	Website and other	Total
	$	$	$	$	$	$
Cost						
July 1, 2018	4,190	—	—	1,540	58	5,788
Additions	—	—	—	—	148	148
Additions from PhytoTech acquisition	—	—	4,659	—	—	4,659
June 30, 2019	4,190	—	4,659	1,540	206	10,595
Accumulated amortization						
July 1, 2018	—	—	—	19	10	29
Amortization		—	—	220	12	232
June 30, 2019	—	—	—	239	22	261
Net book value						
June 30, 2019	4,190	—	4,659	1,301	184	10,334
Cost						
July 1, 2019	4,190	—	4,659	1,540	206	10,595
Additions	—	—	—	—	22	22
Additions from Delivra acquisition (note 10)	3,050	12,150	470	—	—	15,670
September 30, 2019	7,240	12,150	5,129	1,540	228	26,287
Accumulated amortization						
July 1, 2019	—	—	—	239	22	261
Amortization	—	368	—	55	3	426
September 30, 2019	—	368	—	294	25	687
Net book value						
September 30, 2019	**7,240**	**11,782**	**5,129**	**1,246**	**203**	**25,600**

(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

10. Business combinations

The summary of the Company's asset acquisition and business combination completed during the three months ended September 30, 2019 is as follows:

Acquisition completed during the period ended September 30, 2019	Delivra
	$
Consideration transferred	
Common shares issued	20,639
Options and warrants issued	1,255
	21,894
Purchase price allocation	
Net assets acquired	(2,221)
Intangible assets	
Technology and formulations	12,150
Brand name	3,050
In process R&D	470
Goodwill	8,445
	21,894
Net assets acquired	
Cash and cash equivalents	86
Accounts receivables	334
Prepaid expenses and deposits	47
Inventories	2,650
Property, plant and equipment	481
Assets acquired	3,598
Accounts payable and accrued liabilities	(3,806)
Loans and borrowings	(2,013)
	(2,221)
Net cash inflows	
Cash consideration	—
Less: cash acquired	(86)
	(86)
Acquisition costs expensed	
Three months ended September 30, 2019	—

On July 3, 2019, the Company completed the acquisition of all the outstanding shares of Delivra Corp. for a total consideration of $21,894, which consisted of 28,272,622 common shares with a fair value of $20,639; 2,907,918 options with a fair value of $920; and 2,191,502 warrants with a fair value of $335.

The transaction was accounted for as a business combination in accordance with IFRS 3 – *Business Combinations*. In connection with the acquisition, the Company recognized $517 of acquisition costs during the year ended June 30, 2019.

Delivra is a Canadian company that manufactures and sells a range of natural topical pain relief creams for joint and muscle pain, nerve pain, varicose veins, and wound healing under the LivRelief™ brand.

Goodwill arose from the acquisition as the consideration paid reflects: (1) the benefit of the acquired workforce, (2) synergies with the Company's consumer segment and (3) expected revenue growth. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. No amount of goodwill is expected to be deductible for tax purposes.

(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

10. Business combinations (continued)

Management is in the process of gathering relevant information to determine and finalize the fair vaue of the net identifiable assets acquired. As such, the purchase price allocation for the Delivra acquisition is provisional based on estimated fair value of the identifiable assets acquired and liabilities assumed at the acquisition date. The values assigned are, therefore, preliminary and subject to change as additional information is received. Management continues to refine and finalize its purchase price allocation for the fair value of identifiable intangible assets and the allocation of goodwill.

For the three months ended September 30, 2019, Delivra contributed revenues of $475 and a net loss of $202 since the July 3, 2019 acquisition date.

11. Non-controlling interests

The continuity of Greenbelt's non-controlling interest at September 30, 2019 and June 30, 2019 as follows:

Company's ownership interest (%)		50.1%
Balance, June 30, 2018	$	—
Non-controlling interest arising on acquisition of Greenbelt		4,274
Non-controlling interest adjustment for change in ownership interests		428
Share of loss for the year ended June 30, 2019		(113)
Balance, June 30, 2019		4,589
Share of loss for the period ended September 30, 2019		(169)
Balance, September 30, 2019		**4,420**

The Company also entered into a loan facility agreement with Greenbelt dated March 29, 2019, pursuant to which the Company agreed to provide a secured bridge loan facility to Greenbelt of up to $3,500 bearing interest of 4.5% per annum over a one-year term. Under the loan facility, Greenbelt may draw down funds for the purpose of completing the planned retrofit of Greenbelt's greenhouse facility.

12. Goodwill

The summary of the Company's goodwill is as follows:

	September 30 2019	June 30 2019
	$	$
Dream Water acquisition	**21,617**	21,617
Greenbelt acquisition	**1,966**	1,966
Delivra acquisition (note 10)	**8,445**	—
	32,028	23,583

13. Accounts payable and accrued liabilities

The summary of the Company's accounts payable and accrued liabilities is as follows:

	September 30 2019	June 30 2019
	$	$
Trade payables	**10,981**	3,586
Accrued liabilities	**3,129**	4,143
Payroll liabilities	**173**	325
Other payables	**739**	247
	15,022	8,301

Trade payables, accrued liabilities, payroll liabilities and other payables are non-interest bearing. All amounts are expected to be settled within 12 months.

(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

14. Loans and lease liabilities

The summary of the Company's loans and borrowings is as follows:

	Notes	**September 30 2019**	June 30 2019
		$	$
Loans	(a)	**1,795**	—
Lease liabilities	(b)	**1,134**	240
Total loans and lease liabilities		**2,929**	240
Current portion		**(419)**	(101)
Non-current portion		**2,510**	139

a) *Secured and unsecured loans*

In connection with the Delivra acquisition on July 3, 2019 (note 10), the Company assumed eight unsecured loans from the Atlantic Canada Opportunities Agency ("ACOA") and one secured loan from Finance PEI. The summary of the secured and unsecured loans assumed is as follows:

	Effective Interest Rate	Maturity	Face Value	Balance, July 3, 2019	Accretion	Repayments	**Total**
			$	$	$	$	**$**
Balance, July 1, 2019							—
Loans assumed on acquisition							
ACOA 201210	16%	(i)	2,860	1,064	43	—	**1,107**
ACOA 201246	16%	2019	17	3	2	(5)	—
ACOA 202454	16%	2022	85	62	2	(5)	**59**
ACOA 203110	16%	2024	197	134	5	(10)	**129**
ACOA 205145	16%	2020	37	27	1	(4)	**24**
ACOA 206091	16%	2022	76	55	2	(3)	**54**
ACOA 206924	16%	2025	117	71	3	(3)	**71**
ACOA 207593	16%	(i)	484	306	15	—	**321**
Finance PEI	9%	2020	47	35	—	(5)	**30**
Balance, September 30, 2019			3,920	1,757	73	(35)	**1,795**

(i) The annual instalments are calculated as 5% to 10% of forecasted revenues from pipeline products for the calendar year immediately preceding the due date of the respective payment, with an estimated commencement date of August 31, 2021.

The loans with ACOA are through the Atlantic Innovation Fund for the specified projects, in which repayable contributions are received by the Company to a maximum amount based on the lesser of: (i) a percentage of eligible costs, plus a percentage of working capital requirements for the project in certain instances, and (ii) a specified amount. The Company must meet certain conditions of assistance, which are specific to each agreement and project, including maintaining specified amounts of equity.

(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

14. Loans and borrowings (continued)

b) *Lease liabilities*

The continuity of the Company's lease liabilities at September 30, 2019 and June 30, 2019 is as follows:

Balance, June 30, 2018	$	—
Additions on acquisition of Greenbelt		280
Lease payments		(46)
Interest expense on lease liabilities		6
Balance, June 30, 2019		240
Recognition of lease liabilities on initial application of IFRS 16 (note 3)		882
Adjusted balance, July 1, 2019		1,122
Additions on acquisition of Delivra (note 10)		72
Lease payments		(96)
Interest expense on lease liabilities		36
Balance, September 30, 2019		**1,134**

15. General and administration expenses

The summary of the Company's general and administration expenses is as follows:

	September 30 2019	September 30 2018
	$	$
Insurance	**215**	103
Investor relations	**180**	59
Office and general	**458**	203
Professional and consulting services	**551**	564
Regulatory	**38**	1
Rent	**36**	82
Salaries, bonus and benefits	**2,429**	1,418
Travel	**238**	241
	4,145	2,671

16. Share capital

a) *Authorized*

The Company has an unlimited number of authorized common shares with no par value.

b) *Issued capital*

At September 30, 2019, 214,673,675 common shares (June 30, 2019 – 185,819,851) were issued and fully paid.

During the three months ended September 30, 2019, the Company issued shares as follows:

	Number of shares	Share capital
	#	$
Acquisition of Delivra	28,272,622	20,639
Shares issued for services	581,202	396
	28,853,824	21,035

(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

17. Other reserves

The summary of the Company's other reserves is as follows:

	Share-based awards (a)	Warrants (b)	Other (c)	Total
	$	$	$	$
Balance, June 30, 2018	3,465	9,648	743	13,856
Share-based compensation	4,245	—	—	4,245
Warrants exercised	—	(131)	—	(131)
Change in ownership interests in subsidiaries (note 11)	—	—	72	72
Balance, June 30, 2019	7,710	9,517	815	18,042
Share-based compensation	697	—	—	697
Acquisition of Delivra	920	335	—	1,255
Balance, September 30, 2019	**9,327**	**9,852**	**815**	**19,994**

a) *Share-based awards*

(i) Stock options

The Company has established a share purchase option plan ("Plan") whereby the Company's Board of Directors may from time to time grant stock options to employees and non-employees. The maximum number of shares that may be reserved for issuance under the Plan is 10% of the issued and outstanding common shares of the Company. Vesting is determined by the Board of Directors.

The continuity of the Company's stock options at September 30, 2019 and June 30, 2019 is as follows:

	Number outstanding	Weighted average exercise price
	#	$
Outstanding at June 30, 2018	9,025,000	0.82
Granted	12,460,000	0.79
Expired	(2,113,334)	0.75
Forfeited	(1,586,666)	0.98
Outstanding at June 30, 2019	17,785,000	0.79
Granted	4,292,918	0.80
Expired	(1,528,547)	0.76
Forfeited	(175,000)	0.68
Outstanding at September 30, 2019	**20,374,371**	**0.80**

In connection with the Delivra acquisition on July 3, 2019 (note 10), the Company issued 2,907,918 replacement options to holders of Delivra options. Each stock option entitles the holder to purchase one common share at an exercise price between $0.59 to $1.26 for a period of one to five years following the grant date of which 2,409,608 stock options vested immediately and the remaining stock options vest over seven months.

During the three months ended September 30, 2019, the Company granted a total of 1,385,000 stock options under the Company's stock option incentive plan to certain new directors, officers and employees of the Company. Each stock option entitles the holder to purchase one common share at an exercise price between $0.52 to $0.56 for a period of five years following the grant date of which 105,000 stock options vested immediately and the remaining stock options vest over three years.

(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

17. Other reserves (continued)

a) *Share-based awards (continued)*

(i) Stock options (continued)

In determining the amount of share-based compensation, the Company used the Black-Scholes option pricing model to establish the fair value of stock options granted during the three months ended September 30, 2019 and 2018 by applying the following assumptions:

	September 30 2019	September 30 2018
Risk-free interest rate	**1.22% – 1.80%**	2.07% – 2.20%
Expected life of options and PARs (years)	**0.6 – 4.3**	3.6
Expected annualized volatility	**75.00% – 117.96%**	86.47% – 87.04%
Expected dividend yield	**Nil**	Nil

Volatility was estimated by using the historical prices of the Company's common shares. The expected life in years represents the period of time that the stock options and PARs granted are expected to be outstanding. The risk-free rate was based on the zero-coupon Canada government bonds with a remaining term equal to the expected life of the stock option and PAR.

The number of options outstanding and exercisable at September 30, 2019 is as follows:

Expiry date	Number of stock options outstanding	Exercise price	Number of stock options exercisable
	#	$	#
December 31, 2019	400,000	0.75	400,000
February 2, 2020	74,375	1.01	74,375
June 1, 2020	59,500	1.01	59,500
June 15, 2020	119,000	1.01	119,000
August 21, 2020	59,500	1.18	59,500
September 11, 2020	4,777	1.26	4,777
November 30, 2020	440,300	0.84	440,300
January 21, 2021	29,750	0.91	29,750
January 26, 2021	223,125	1.26	223,125
October 3, 2021	92,969	1.26	92,969
December 19, 2021	481,950	1.26	481,950
April 27, 2022	2,550,000	0.75	2,550,000
January 24, 2023	996,625	0.76	498,315
January 25, 2023	150,000	1.77	75,000
May 28, 2023	925,000	0.84	462,500
July 3, 2023	8,000,000	0.77	3,466,722
September 18, 2023	1,050,000	0.91	350,002
October 12, 2023	297,500	0.61	297,500
October 30, 2023	300,000	0.54	—
April 22, 2024	2,415,000	0.85	75,000
June 17, 2024	320,000	0.68	—
July 31, 2024	360,000	0.56	—
August 26, 2024	300,000	0.55	45,000
September 4, 2024	725,000	0.52	60,000
	20,374,371		**9,865,285**

(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

17. Other reserves (continued)

a) *Share-based awards (continued)*

(ii) Performance appreciation rights

The Company has established performance appreciation rights ("PAR"). Each PAR entitles the holder to purchase one common share and the Company may, in its sole discretion, replace all or part of the outstanding PARs granted with stock options on a one for one exchange basis. The Company intends to settle the PARs through equity instruments and used the Black-Scholes option pricing model to establish the fair value of the PARs to determine the amount of share-based compensation.

The number of PARs outstanding and exercisable at September 30, 2019 is as follows:

Expiry date	Number of PARs outstanding	Exercise price	Number of PARs exercisable
	#	$	#
July 3, 2023	2,500,000	0.77	1,083,352
	2,500,000		**1,083,352**

b) *Warrants*

The continuity of the Company's warrants at September 30, 2019 and June 30, 2019 is as follows:

	RTO Warrants	Brokers' RTO Warrants and Secondary Warrants	Debenture Warrants	Units Offering and Brokers' Units Offering Warrants	Dream Water Warrants	Delivra Warrants (i)	Total number outstanding	Weighted average exercise price
							#	$
Outstanding at June 30, 2018	3,376,468	1,300,036	5,901,282	22,778,846	517,000	—	33,873,632	1.88
Issued	—	100,002	—	—	—	—	100,002	1.00
Exercised	(150,000)	(200,004)	(100)	—	—	—	(350,104)	0.86
Outstanding at June 30, 2019	3,226,468	1,200,034	5,901,182	22,778,846	517,000	—	33,623,530	1.89
Issued	—	—	—	—	—	2,191,502	2,191,502	0.83
Outstanding at September 30, 2019	**3,226,468**	**1,200,034**	**5,901,182**	**22,778,846**	**517,000**	**2,191,502**	**35,815,032**	**1.89**

(i) Delivra Warrants

In connection with the Delivra acquisition on July 3, 2019 (note 10), the Company issued 2,191,502 replacement warrants to holders of Delivra warrants with an exercise price of $0.59 – $0.84 per warrant and which expire nine months from the date of issue. Upon exercise of the Delivra Warrants, the Company will issue one common share.

(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

17. Other reserves (continued)

b) *Warrants (continued)*

The Company's outstanding warrants at September 30, 2019 is as follows:

	Issued	Exercised	Outstanding	Exercise price	Expiry date
	#	#	#	$	
Reverse Take-Over ("RTO") Warrants	16,667,000	13,440,532	3,226,468	1.00	April 27, 2020
Brokers' RTO warrants	2,000,040	1,400,008	600,032	0.75	April 27, 2020
Brokers' Secondary Warrants	600,002	100,002	500,000	1.00	January 4, 2021
Brokers' Secondary Warrants	100,002	—	100,002	1.00	May 3, 2022
Debenture Warrants	9,493,882	3,592,700	5,901,182	1.09	December 14, 2020
Units Offering Warrants	22,115,385	—	22,115,385	2.30	January 31, 2020
Brokers' Units Offering Warrants	663,461	—	663,461	2.30	January 31, 2020
Dream Water Warrants	517,000	—	517,000	1.00	May 29, 2021
Delivra Warrants	72,455	—	72,455	0.59	April 5, 2020
Delivra Warrants	2,119,047	—	2,119,047	0.84	April 5, 2020
	54,348,274	**18,533,242**	**35,815,032**		

18. Related parties

The summary of the Company's related party transactions during the three months ended September 30, 2019 and 2018 is as follows:

a) *Compensation of key management personnel*

Key management personnel ("KMP") include persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The KMP of the Company are the members of the Company's executive management team and Board of Directors. Compensation provided to KMP is as follows:

	September 30 2019	September 30 2018
	$	$
Salaries and benefits	**551**	480
Severance costs	—	787
Directors' fees	**33**	24
Share-based compensation	**431**	1,487
Total	**1,015**	2,778

b) *Payments to related parties*

As at September 30, 2019, there was $33 directors' fees owing (June 30, 2019 – $33) included in accounts payable and accrued liabilities.

c) *Severance payments*

During the three months ended September 30, 2018, the Company paid $750 to the former Chief Executive Officer in accordance with the terms of a mutual separation agreement, which is included in severance and reorganization costs.

(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

19. Commitments

As at September 30, 2019, the Company's commitments that have not been disclosed elsewhere in the consolidated financial statements is as follows:

	Less than 1 year	Between 2 to 5 years	Over 5 years	Total
	$	$	$	$
Purchase commitments	6,713	13,548	—	20,261
Lease commitments	666	1,276	76	2,018
Extraction services commitments	302	603	—	905
Capital commitments	720	—	—	720
	8,401	**15,427**	**76**	**23,904**

a) *Purchase commitments*

On July 1, 2019, the Company entered into a premium cannabis supply agreement with 9869247 Canada Limited ("Stevens Green"), pursuant to which Stevens Green will cultivate and harvest United Greeneries' premium cannabis genetics at their facility in Ontario. As part of this agreement, the Company has annual minimum purchase commitments. In addition, purchase commitments include amounts committed for the purchase of CBD Gelpell® capsules.

b) *Lease commitments*

The Company has various lease commitments related to office space, land and equipment expiring between March 2020 and February 2027. Included in lease commitments are the undiscounted contractual balances of lease liabilities recognized on adoption of IFRS 16.

c) *Extraction services commitments*

On November 11, 2018, the Company entered into a multi-year Extraction Services Agreement with Valens GroWorks Corp ("Valens") for cannabis extraction and value-added services. As part of this agreement, the Company will ship to or purchase from Valens bulk quantities of dried cannabis over an initial three-year term. Valens will process the cannabis on a fee-for-service basis into bulk resin or other cannabis oil derivative products.

d) *Capital commitments*

On October 17, 2018, the Company entered into an agreement to purchase four custom designed modular buildings to be placed on the land adjacent to the Duncan facility. Phase one of the project has been completed, with phases two and three completion expected in early calendar 2020. The modular buildings are expected to increase the annual production capacity of harvested cannabis. In addition, capital commitments include amounts committed for the construction of the Lucky Lake facility.

(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

20. Segmented information

The Company operates in three reportable segments: Cultivation (United Greeneries and Greenbelt), Medical and Nutraceutical (Satipharm and PhytoTech), and Consumer (Dream Water and Delivra), which is the way the Company reports information regarding segment performance, including net profit (loss), to its chief operating decision maker as of September 30, 2019.

The Cultivation segment includes the cultivation and distribution of cannabis in the medical and recreational markets under the federally regulated *Cannabis Act* with a licence issued by Health Canada. The Medical and Nutraceutical segment includes the processing, manufacturing and distribution of cannabis-based food supplement products throughout Europe and Australia. The Consumer segment includes the marketing, distribution, and product development of liquid sleep shots and sleep powder packets as well as pain relief creams throughout Canada and the US.

The segments for the three months ended September 30, 2019 and 2018 are as follows:

	Three months ended September 30, 2019					Three months ended September 30, 2018				
	Cultivation	**Medical and Nutraceutical**	**Consumer**	**Corporate**	**Total**	Cultivation	Medical and Nutraceutical	Consumer	Corporate	Total
	$	**$**	**$**	**$**	**$**	$	$	$	$	$
Net revenue	**2,037**	**299**	**1,728**	**—**	**4,064**	608	—	1,071	—	1,679
Gross profit (loss) before fair value adjustments	**433**	**52**	**337**	**—**	**822**	(73)	—	(55)	—	(128)
Gross profit (loss)	**876**	**52**	**337**	**—**	**1,265**	633	—	(55)	—	578
Expenses	**832**	**769**	**1,675**	**3,180**	**6,456**	608	454	1,280	4,053	6,395
Net profit (loss)	**20**	**(716)**	**(1,429)**	**(3,305)**	**(5,430)**	24	(420)	(1,338)	(4,061)	(5,795)

(Unaudited – Expressed in thousands of Canadian dollars, except share and per share amounts)

20. Segmented information (continued)

The Company generates net revenue from three geographical locations:

Net revenue	September 30 2019	September 30 2018
	$	$
Canada	**2,742**	724
US	**1,023**	955
Europe	**299**	—
Total	**4,064**	1,679

Net revenues in each geographical location relate to the sale of the following:

- Canada – harvested cannabis, Dream Water liquid sleep shots and LivRelief™ pain relief creams
- US – Dream Water liquid sleep shots and sleep powder packets
- Europe – CBD Gelpell® capsules

The Company has the following non-current assets in three geographic locations:

Non-current assets	September 30 2019	June 30 2019
	$	$
Canada	**84,045**	51,681
US	**10,567**	10,567
Israel	**4,659**	4,659
Total	**99,271**	66,907